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Inflation and Monetary Policy Trends in Africa: Fortunes Diverging in 2025

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Index

Fortunes Diverging in 2025

Containing inflation and minimizing price growth remain key mandates for African Central Banks. This focus stems from the fact that inflation erodes purchasing power, raises the cost of living, and ultimately weighs on economic growth and stability. In line with global monetary frameworks, African Central Banks are typically guided by explicit inflation targets and rely primarily on policy rate adjustments to manage price dynamics.

Inflation Pressures in Recent Years Were Mainly Driven by the Pandemic and Global Developments

In the aftermath of the pandemic and the onset of the Russia-Ukraine conflict, African economies experienced significant inflationary pressures. These were largely driven by supply chain disruptions and surging global commodity prices, particularly for food and fuel. Given Africa's structural reliance on imported grains and energy, these shocks resulted in widespread price increases. In response, central banks across the continent tightened monetary policy to contain inflation.

Showing Signs of Abating in Four African Nations…

Policy tightening, combined with reduced supply-side constraints, has yielded positive results in some countries we monitor. Inflation has slowed in several nations, including Morocco, Botswana, South Africa, and Mauritius, falling back within their central banks' target ranges:

Morocco's inflation has been subdued since the end of 2023, averaging just 1% in 2024. In the first five months of 2025, headline inflation averaged 1.5% YoY and eased to 0.4% in May.

Botswana has followed a similar path, with inflation averaging just 2.8% in 2024. Year-to-date (YTD), the average inflation rate slowed to 2.4% YoY. Meanwhile, the latest CPI print shows that inflation remained subdued in May at 1.9% YoY.

South Africa's inflation in recent months has been below the South African Reserve Bank (SARB) inflation target range of 3%-6%, after averaging 4.4% in 2024. The inflation rate was unchanged at 2.8% YoY in May. Overall, the annual inflation rate slowed to 2.9% YTD, on average.

Mauritius inflation has largely remained within the Bank of Mauritius' (BoM) 2%-5% target band and averaged 2.9% YoY in the first half of 2025, down from an annual average inflation rate of 3.6% in 2024. However, inflation prints in recent months have shown signs of reacceleration. Indeed, inflation quickened above the BoM inflation target in June, rising by 5.4% YoY from 4.2% in May.

…However, Inflation Remains Elevated in the Other Three Nations…

In contrast, Ethiopia, Egypt, and Nigeria continue to face elevated inflation, despite some signs of moderation:

Ethiopia continues to experience double-digit inflation, which averaged 21.1% in 2024, though it has been trending downward in recent months. Indeed, inflation rose by 14.4% YoY in May and averaged 14.6% YoY so far this year.

Egypt registered an average inflation rate of 28.4% in 2024. Meanwhile, headline inflation rose by 14.9% YoY in June. Overall, the annual inflation rate slowed to 16% YTD, on average, still significantly above the Central Bank of Egypt's (CBE) 5%-9% target.

Nigeria recorded an average inflation rate of 33.2% in 2024, above the Central Bank of Nigeria's (CBN) 6%-9% long-term target range. So far in 2025, headline inflation has averaged 23.7% YoY after easing to 23% YoY in May from 23.7%, pointing to sticky inflation.

…Primarily Driven by Specific Structural Factors

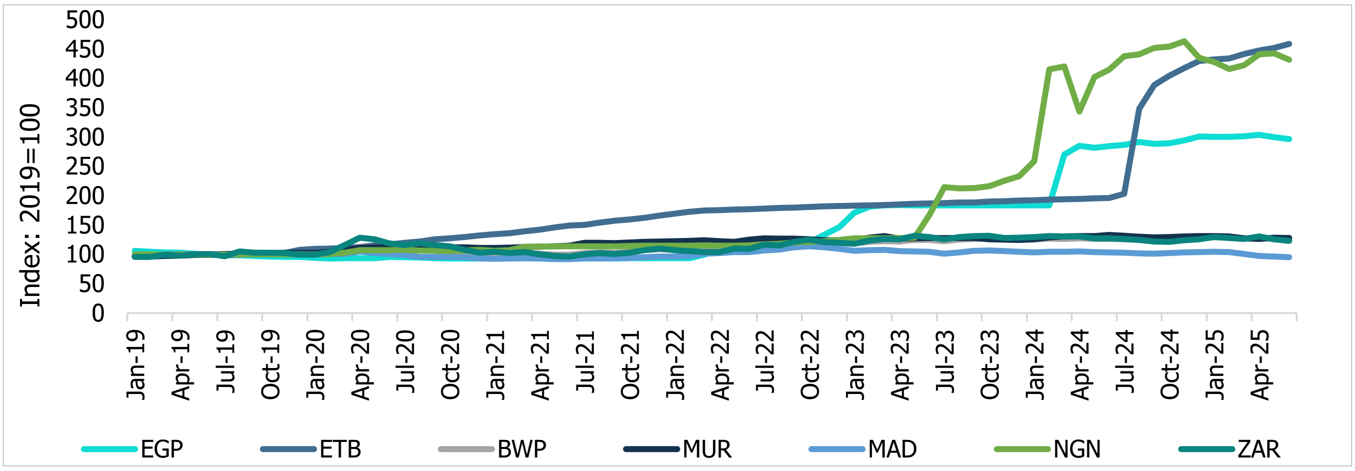
The high inflation rates in these three countries indicate the short-term effects of structural reforms being carried out, though each country has different reasons. In Egypt and Ethiopia, reforms were necessary to obtain IMF Extended Fund Facility (EFF) support. In Nigeria, reforms have been driven by a broader shift in political, fiscal, and monetary priorities aimed at addressing long-standing structural issues and imbalances.

Key inflation drivers in these economies include:

1. **Liberalisation of the exchange rate** has led to significant currency depreciation and imported inflation.
2. **Removal of energy subsidies,** which have raised transport and energy costs.
3. **High dependence on imports,** particularly on food and fuel.

By the end of the first half of 2025, the Ethiopian Birr had depreciated by 128% YoY, while the Egyptian Pound and Nigerian Naira fell by 21% and 15%, respectively. These currency declines have increased inflationary pressures, despite overall declining global oil prices. Short-term oil price spikes caused by geopolitical tensions in the Middle East may add further complexity to the inflation outlook.

Monthly Exchange Rate Movements Against the US Dollar



Source: World Bank, CEIC. Note: EGP= Egyptian Pound, ETB=Ethiopian Birr, BWP= Botswana Pula, MUR= Mauritian Rupee, MAD= Moroccan Dirham, NGN= Nigerian Naira, ZAR= South African Rand

Meanwhile, the **removal of fuel and energy subsidies** in Nigeria has seen transport inflation accelerating by nearly 10 percentage points (pps) since May 2023 to 31% YoY at the end of 2024, while electricity subsidies have been cut by 35% through substantial tariff increases. Developments in Egypt have been relatively similar, with the recent impact of the removal of the fuel subsidy evident in the May 2025 CPI print, following a nearly 15% increase in fuel prices in April.

In terms of **import dependence**, the impact remains evident through double-digit food price growth, driven by the transmission of weak exchange rates into higher import inflation in the food component of the CPI. However, favourable base effects have mitigated the impact in recent months. Ethiopia's food inflation (which contributes

54% to headline inflation) stood at 12.1% in May 2025 after averaging 23.8% in 2024. Likewise, Nigeria's food CPI averaged nearly 40% in 2024 but has since sharply eased. Similarly, Egypt food price growth was up by 11% YoY in May from an average of 33.8% in 2024.

The persistence of high inflation and volatile exchange rates in Nigeria, Egypt, and Ethiopia also partly contributes to their relatively weak metrics on the monetary and financial stability pillar, thus impacting their sovereign credit ratings.

Monetary Policy Divergence Mirrors Economic Conditions and Inflation Trends

While most global central banks began easing policy rates in the second half of 2024, the central banks of Egypt, Ethiopia, and Nigeria have held the fort much longer due to still elevated inflation:

The **Central Bank of Nigeria** (CBN) kept policy rates unchanged at 27.5% in its last meeting that was held in May 2025, after hiking the policy rate by a cumulative 925 basis points (bps) since the start of 2024, with the last policy rate hike taking place in November 2024.

The **National Bank of Ethiopia** (NBE) has kept the policy rate unchanged at 15% since hiking by 800 bps in July 2024.

Meanwhile, the **Central Bank of Egypt** (CBE) has only recently begun cutting rates, reducing the policy rate by a cumulative 325 bps between April and May 2025 to 24%.

In contrast, the policy rate-cutting cycle was already in motion by the end of the first half of 2024 in Morocco and Botswana:

The **Central Bank of Morocco** (CBM) (Bank Al-Maghrib) implemented the first policy rate reduction in June 2024 and has since reduced the policy rate by a cumulative 75bps to 2.25%.

Similarly, the **Bank of Botswana** (BoB) conducted the first policy rate cut in June 2024. Overall, the BoB has eased the policy rate by a cumulative 50 bps to 1.9% while it has been held steady since the end of August 2025.

The **South African Reserve Bank** (SARB), meanwhile, has reduced rates in four MPC meetings since September 2024, easing the policy rate by a cumulative 100 bps to 7.25%.

Meanwhile, the **Bank of Mauritius** (BoM) has adopted a cautious approach, monitoring exchange rate movements and interest rate differentials, given the country's dependence on imported food. Indeed, the BoM has remained on hold after hiking the policy rate by 50 bps in February to 4.5%, reversing the 50 bps rate cut implemented in September 2024.

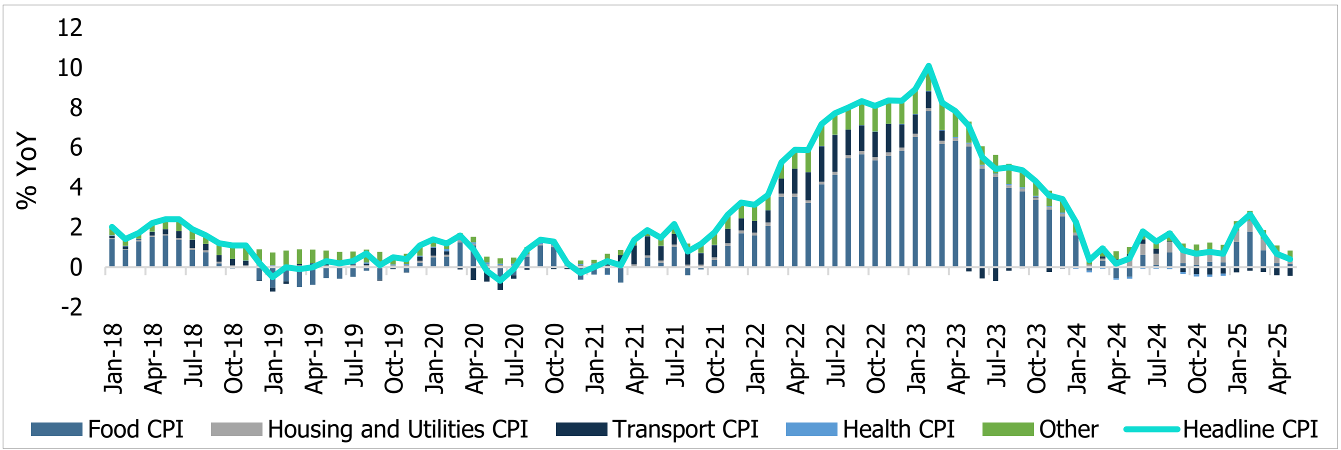
Outlook

The inflation outlook across the seven countries in Africa under our coverage remains **divergent**. Countries with **stable currencies and proactive monetary frameworks** are well-positioned to support growth through easing. Meanwhile, those undergoing **reform-driven transitions** will likely face **continued inflation volatility** in the near term. Over time, however, these reforms are expected to yield **greater economic stability and monetary policy credibility over the medium term**

Morocco: Inflation Continues to Trend Lower

Price growth in Morocco has remained subdued since the end of 2023, averaging 1% in 2024. More recently, headline inflation eased to 0.4% in May 2025, after averaging 2.1% in Q1 2025. The slowdown was primarily driven by continued deceleration in food and non-alcoholic beverage inflation, as well as steeper deflation in the transport component of the CPI.

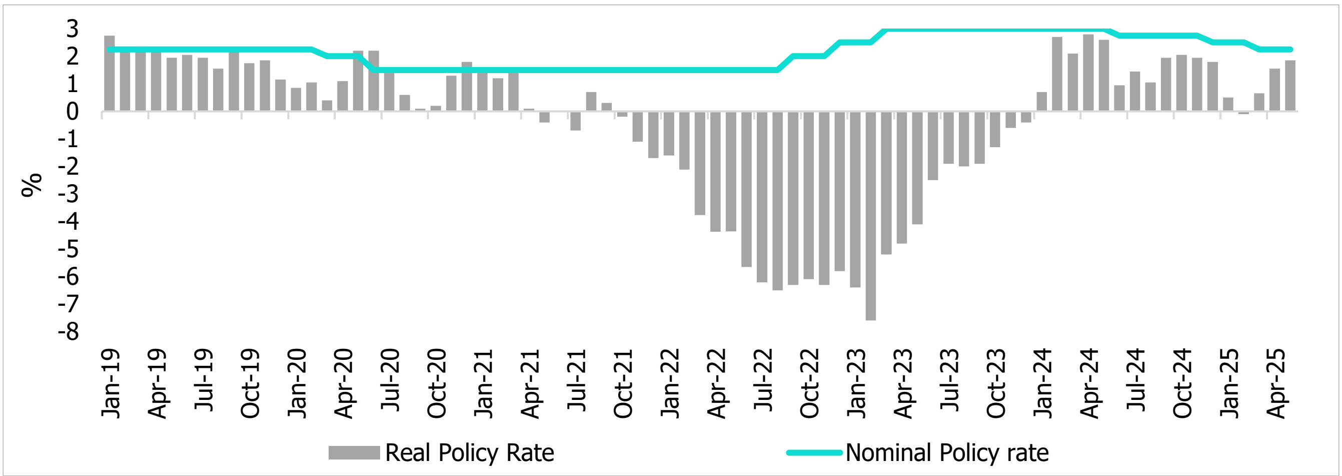
Morocco Inflation Rate (YoY)



Source: Haut Commissariat au Plan, CEIC

The downward trend in inflation since the end of 2023 opened space for policy rate reductions with the CBM easing the policy rate by cumulative 75bps to 2.25%. The CBM does not have a stated inflation target. Still, it highlighted that it expects inflation to remain around 2% over the next two years and aims to strengthen support for economic activity and employment.

Morocco Policy Rate (%)

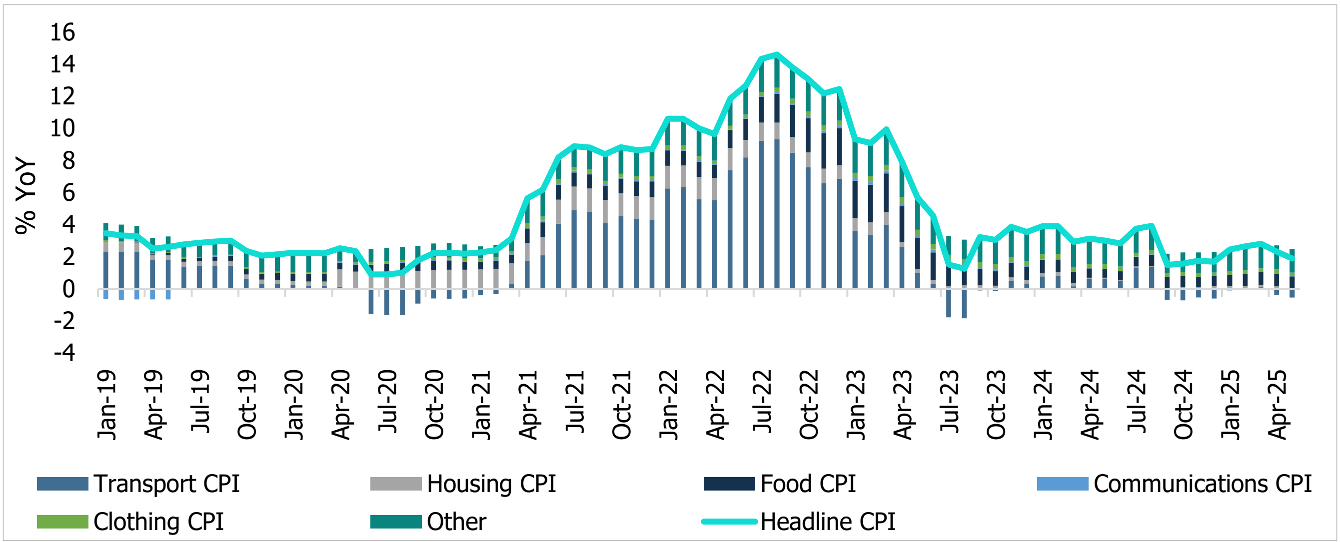


Source: Bank Al-Maghrib, Haut Commissariat au Plan

Botswana: Contained Price Growth Presents a Bright Spot

Despite the economic and fiscal crisis in Botswana due to the diamond revenue slump (see our report, Botswana Commentary, for more details), headline inflation continues its subdued path. Price growth eased to the lowest level since December 2024, rising by 1.9% YoY in May 2025 from 2.3% previously.

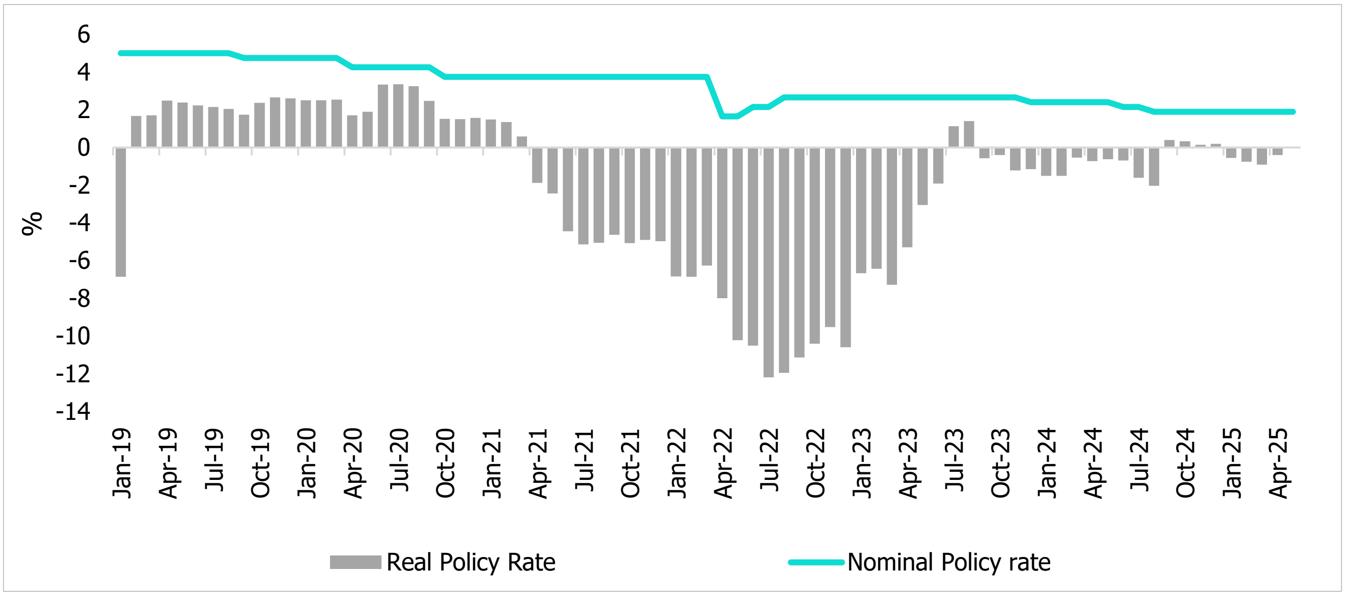
Botswana Inflation Rate (YoY)



Source: Central Statistics Office, CEIC

Domestic and global uncertainties, however, have led the BoB to maintain a cautious approach since August 2024, with the policy rate remaining unchanged at 1.9%.

Botswana Policy Rate (%)

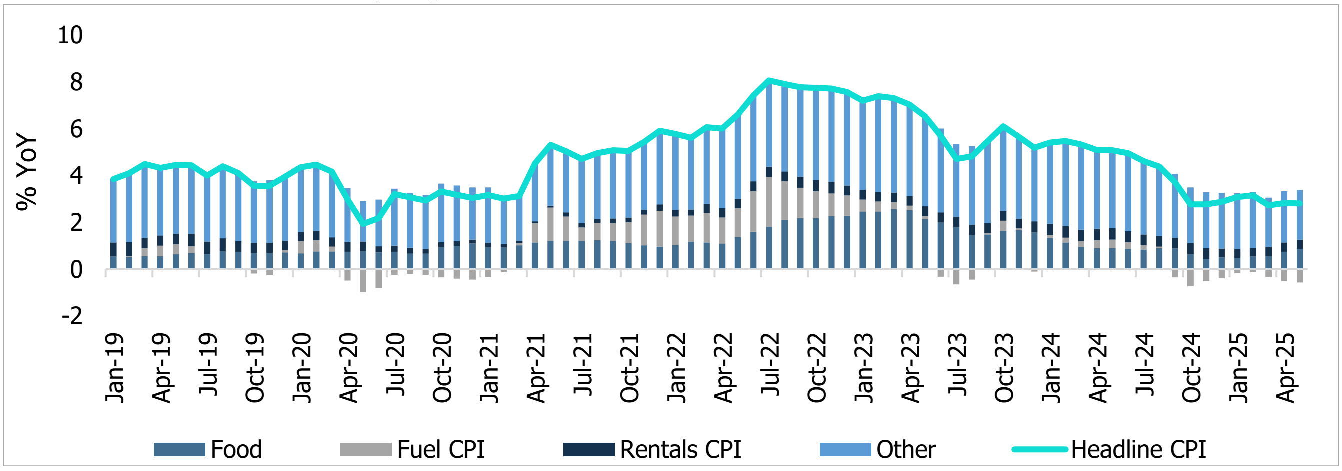


Source: Bank of Botswana

South Africa: Subdued Inflation, SARB Expected to lower Inflation Target

Inflation in South Africa has remained below the SARB inflation target range (3%-6%) for three successive months, slowing to 2.8% YoY in May following average annual inflation of 4.4% in 2024.

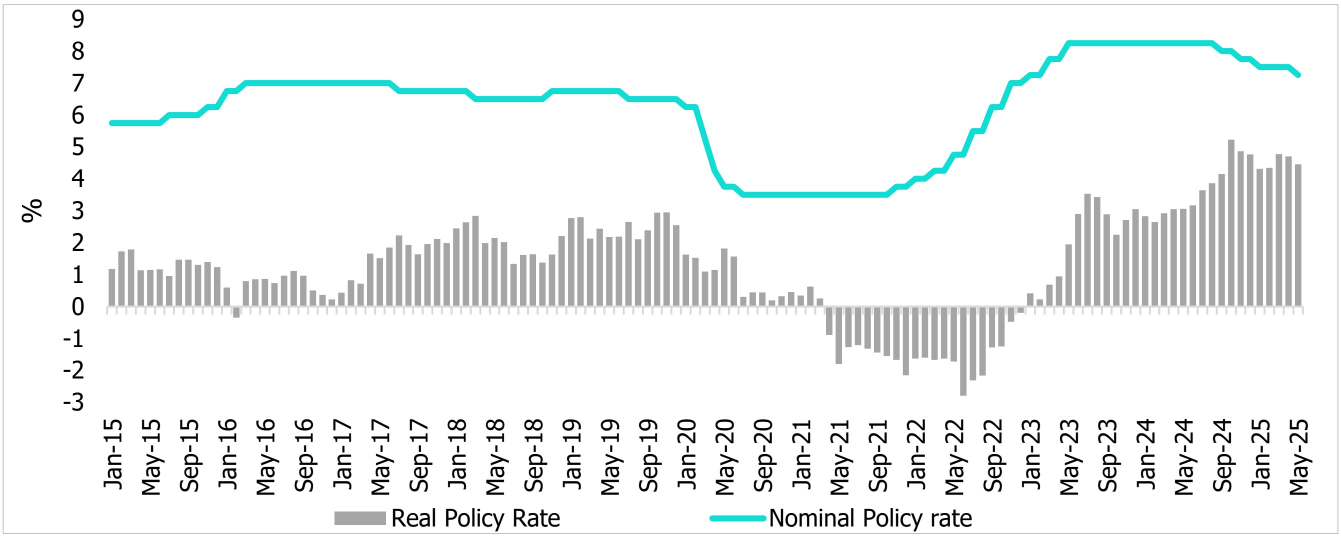
South Africa Inflation Rate (YoY)



Source: Statistics South Africa, CEIC; Note: Rentals CPI is made up of Owners Equivalent Rentals and Actual Rentals Inflation.

These favourable inflation dynamics have allowed the SARB to reduce policy rate by a cumulative 100 basis points (bps) since September 2024 to 7.25%. Meanwhile, the benign inflation environment has presented an opportunity for the SARB to target a lower inflation target of 3%, at minimum costs.

South Africa Policy Rate (%)

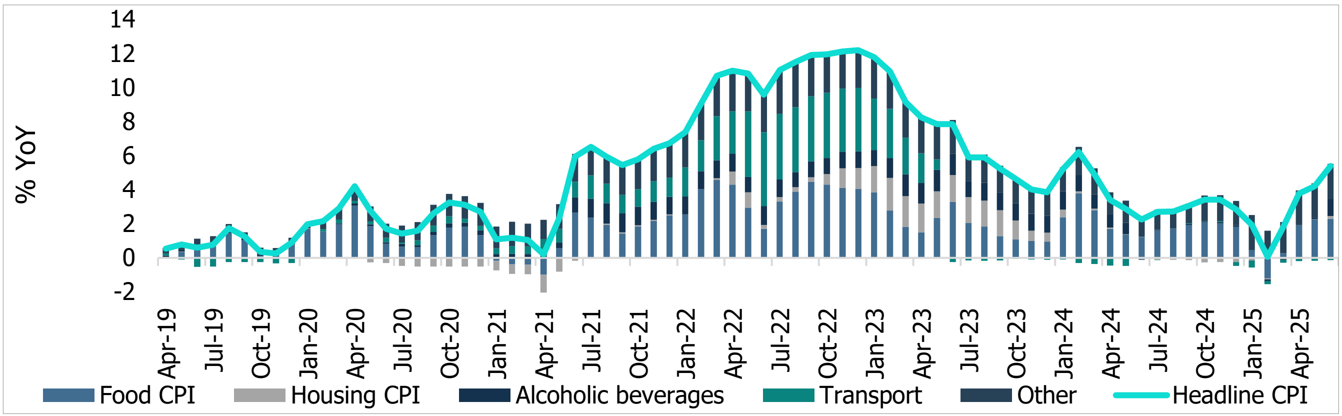


Source: SARB, Statistics South Africa

Mauritius: Inflation Within Target but Signs of Reacceleration are Evident

While the inflation rate in Mauritius has largely remained within the Bank of Mauritius (BoM) inflation target band of 2%-5%, it has shown signs of turning the tide in the past four months and rose by 5.4% YoY in June from 4.2% previously. The recent uptick was largely influenced by budgetary measures introduced during the month, specifically, excise duties on alcoholic beverages and tobacco products were raised by 10%, while the levy on the sugar content of sugar-sweetened products was doubled from 6 cents to 12 cents per gram of sugar. Meanwhile, food CPI remains upbeat due to dependence on imported food and fertilisers, making the country vulnerable to fluctuations in the Mauritian rupee and global commodity markets. Nonetheless, the BoM expects inflation to average 3.5% in 2025.

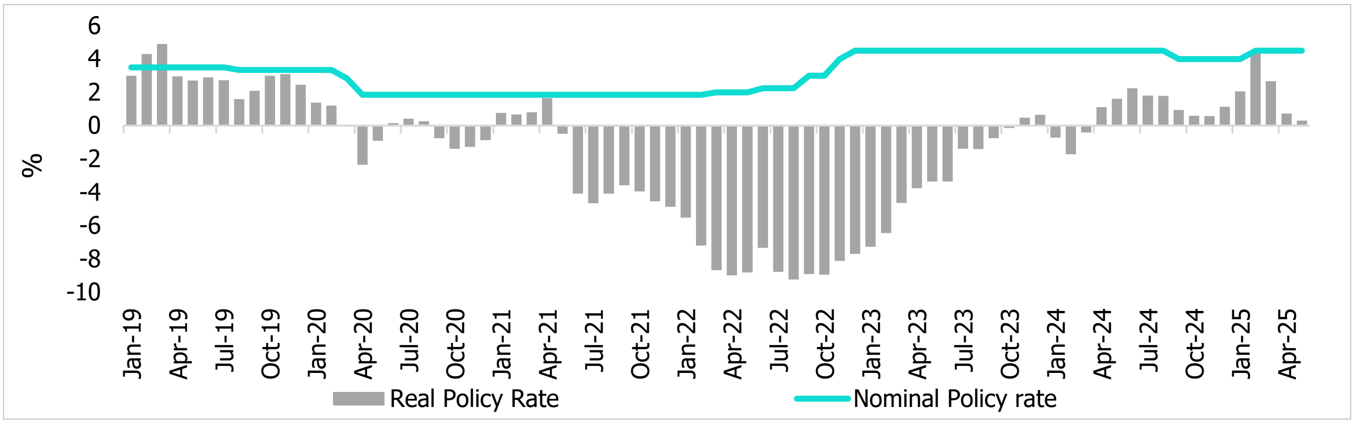
Mauritius Inflation Rate (YoY)



Source: Central Statistics Office, CEIC

Despite inflation outcomes that have largely remained within the target range, the BoM hiked the policy rate by 50 bps to 4.50% in February 2025, predominantly to firmly anchor inflation expectations and reduce interest rate differentials while also containing exchange rate pressures. The decision reversed the 50-bps rate cut implemented in September 2024. At the latest MPC meeting, held on May 7, the BoM unanimously decided to keep the policy rate unchanged at 4.50% and maintained a cautious approach.

Mauritius Policy Rate (%)

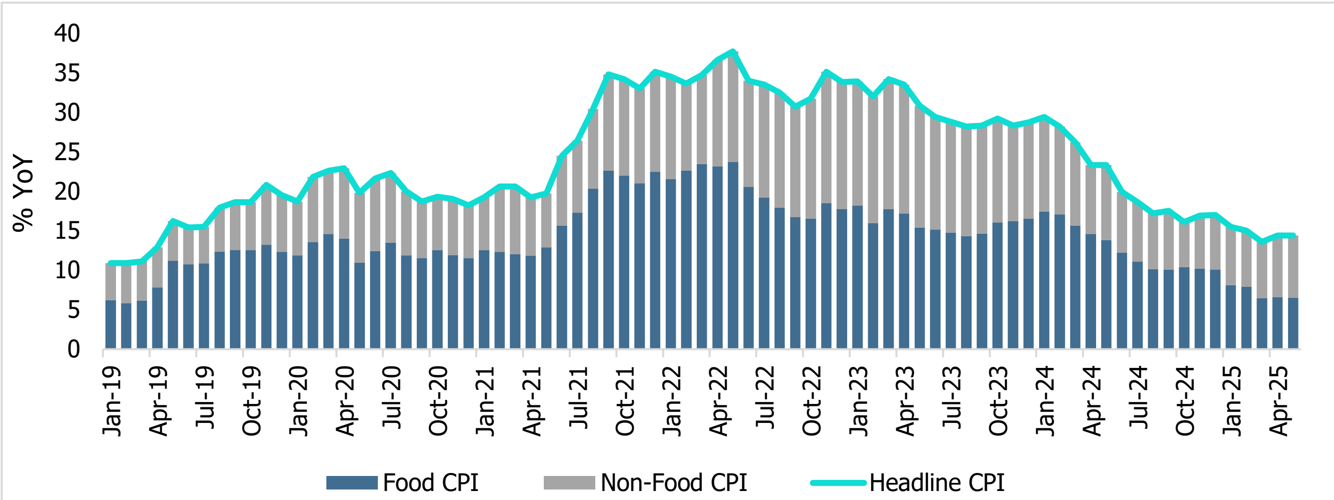


Source: Bank of Mauritius, Central Statistics Office

Ethiopia: Inflation Trending Down but Weak Currency to be a Drag

The headline inflation rate remains in double digits despite being on a downward trend in recent months. Elevated price growth continues to be driven by imported inflation due to the sharply depreciated currency. Indeed, headline inflation rose by 14.4% YoY in May and was mainly driven by food CPI (up by 12.2% YoY from 11.9%), which has a weighting of 54% in the overall inflation basket.

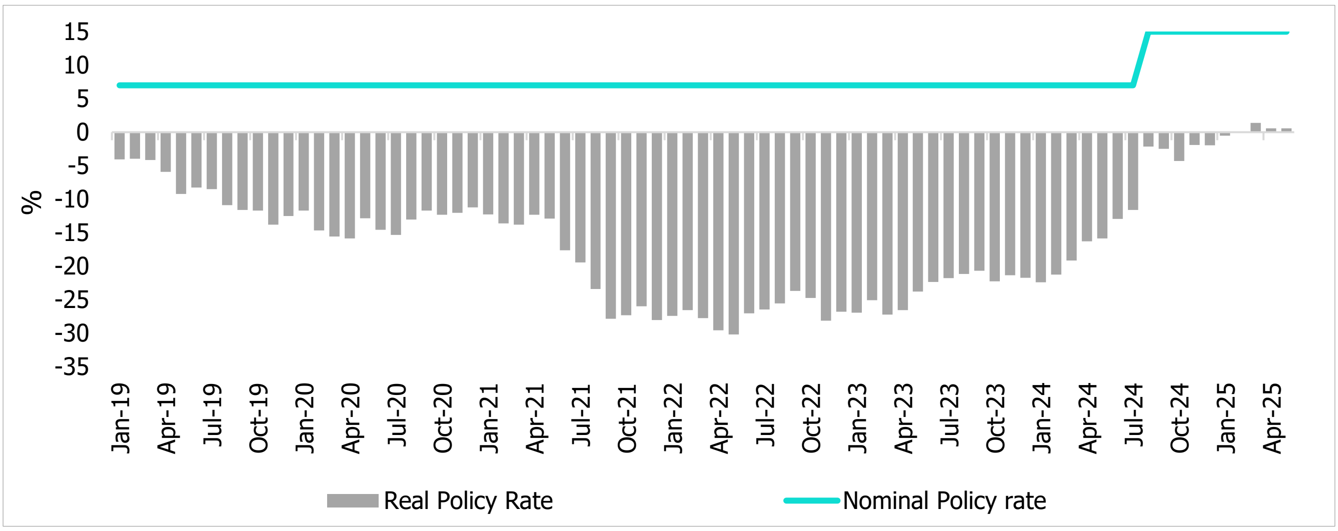
Ethiopia Inflation Rate (YoY)



Source: Ethiopia Bureau of Statistics

Meanwhile, the National Bank of Ethiopia (NBE) has maintained the policy rate at 15%, unchanged since July 2024, when it was hiked by 800 basis points to combat price pressures. In the July 2024 MPC meeting, the NBE moved to an interest-rate-based monetary policy regime and adopted the National Bank Rate (NBR). The NBR rate is close to the rate at which banks lend to each other and is somewhat below commercial bank lending rates. Until July 2024, the official rate was the bank's savings rate.

Ethiopia Policy Rate (%)

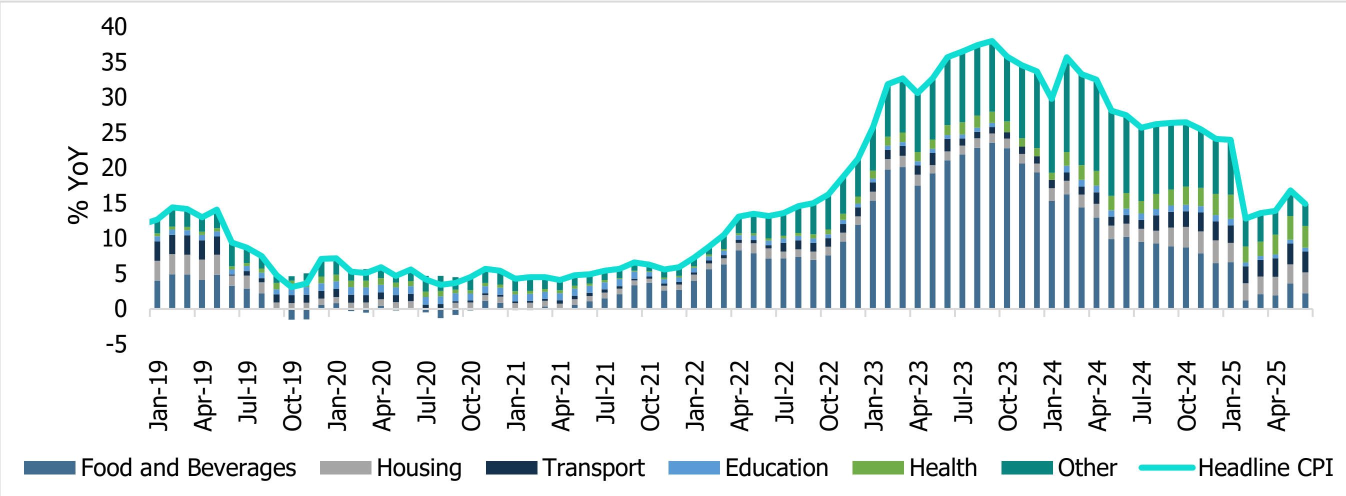


Source: National Bank of Ethiopia, Bureau of Statistics, Trading Economics

Egypt: Easing Inflation but Fuel Subsidy Removal Adds Pressure

Inflation in Egypt continues to be impacted by the decision made last year to weaken the Egyptian pound in March 2024, which led to a decline in value of over 60%. Indeed, headline inflation rose by 14.9% YoY in June 2025, down from 16.8% in May as lower food CPI offset elevated transport inflation following a nearly 15% increase in fuel prices in April. This, however, remains significantly below the average annual inflation of 28.4% in 2024.

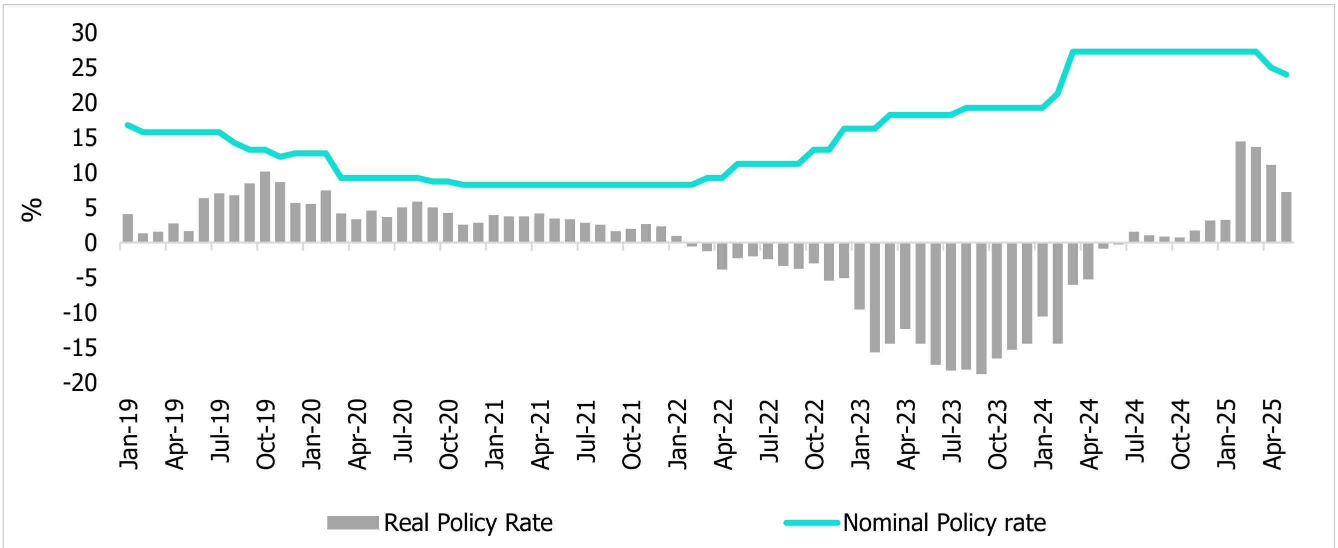
Egypt Inflation Rate (YoY)



Source: CAPMAS, CEIC

As such, relatively low inflation and positive real rates have allowed the CBE to reduce the policy rate by 325 basis points to 24.0% so far in 2025.

Egypt Policy Rate (%)

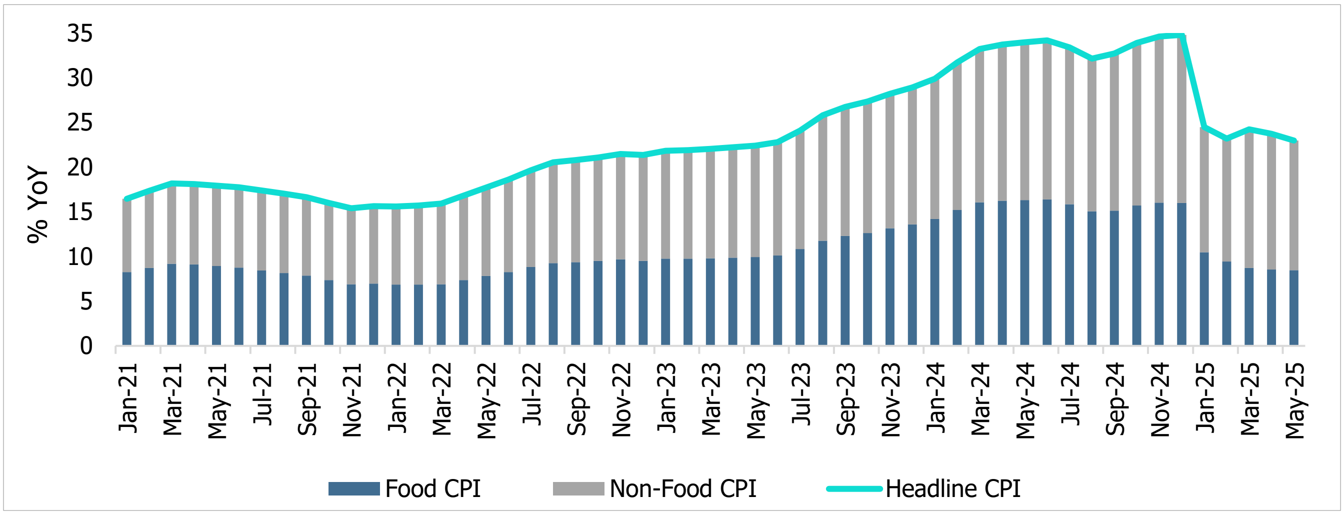


Source: Central Bank of Egypt, CAPMAS, CEIC

Nigeria: Inflation On a Downward Trend Since Rebasing

Price growth in Nigeria has been on a downward trend since the start of the year, partly due to favourable base effects and rebasing of the Consumer Price Index (CPI). However, headline inflation is still growing at double digits and above the CBN's inflation target of 6%-9%. Indeed, headline inflation rose by 23% YoY in Nigeria in May, down from 23.7% in April. Food CPI is still above 21% YoY in March, while transport inflation continues to be impacted by the removal of fuel subsidies.

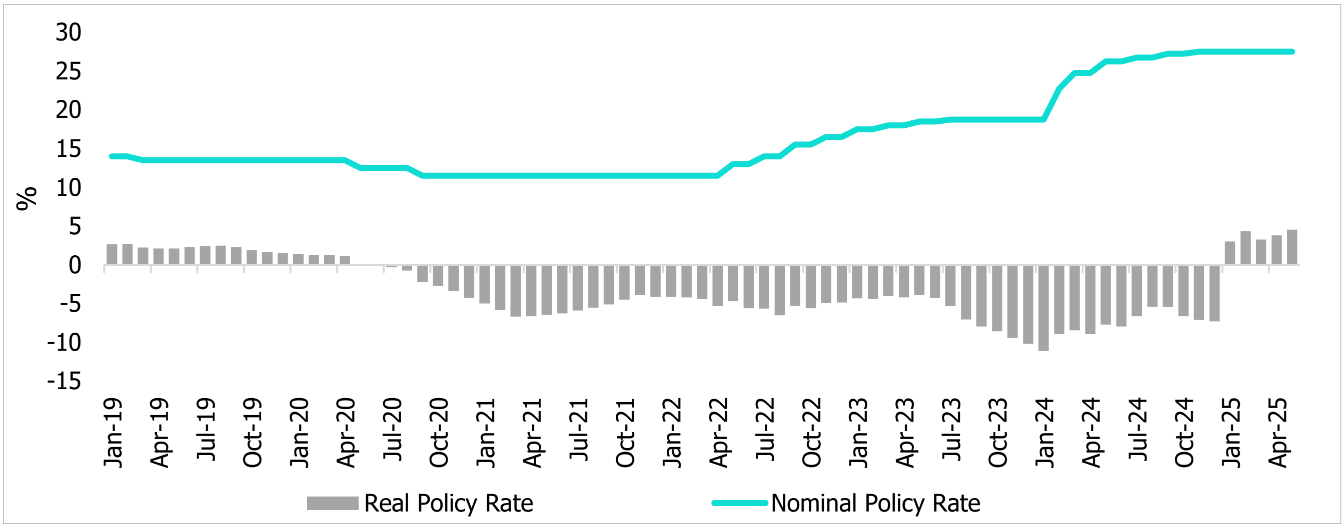
Nigeria Inflation Rate (YoY)



Source: Nigeria Bureau of Statistics, CEIC

Following monetary policy reforms that have led to an orthodox policy reaction function amid price pressures, the CBN has kept policy rates unchanged at 27.5% after hiking the policy rate by a cumulative 925 basis points since the start of 2024.

Nigeria Policy Rate (%)



Source: Central Bank of Nigeria, Nigeria Bureau of Statistics

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